April 18, 2014

Financial Condition (E) Committee Technical Changes

Background Information. At the NAIC 2009 Fall National Meeting, the NAIC membership approved a new process for the final adoption of technical matters coming from the Financial Condition (E) Committee. The new process was enacted in order to provide these technical changes to the industry and impacted parties as quickly as possible, in an effort to allow them more time to modify their systems and processes for such changes.

Details of Process Adopted

1. A list of technical items (shown on page(s) that follow) will be provided from the Financial Condition (E) Committee to the Executive (EX) Committee and Plenary within one week of the completion of the national meeting.
2. The list contains only what the Financial Condition (E) Committee considers technical and routine, and does not include items that are significant by NAIC standards (e.g., it would not include proposed model laws, model regulations or guidelines) or items considered controversial.
3. Members of the Executive (EX) Committee and Plenary have 10 days to review the attached list, and voice any objection with respect to a specific item.
4. If no objections are raised on a particular item, or any of the items, each and all items will be considered adopted by the Executive (EX) Committee and Plenary, similar to the consent agenda process.
5. If there is an objection on any one or multiple items, a joint conference call of the Executive (EX) Committee and Plenary will be scheduled to address the particular item(s).
6. Items receiving no objection will be considered adopted, and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation.

Request for Approval. Under the above process, the Executive (EX) Committee and Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by April 28, 2014. Any item(s) receiving an objection will be pulled from this automatic consideration, and a call will be scheduled to address the issue.
The following technical items were adopted by the Financial Condition (E) Committee at the 2014 Spring National Meeting:

1. **Accounting Practices and Procedures Manual Changes and Related Items**
   - Adopted the following substantive revisions to statutory accounting:
     - None.
   - Adopted the following nonsubstantive revisions to statutory accounting:
     - *Statement of Statutory Accounting Principles (SSAP) No. 3—Accounting Changes and Corrections of Errors and SSAP No. 68—Business Combinations and Goodwill*: Revisions note that the disclosure exemption for shell entities does not change that Jan. 1 is used to determine a cumulative effect in accounting principle. (Ref #2013-29)
     - *SSAP No. 35R—Guaranty Fund and Other Assessments*: Quarterly and annual balance disclosures for the federal Affordable Care Act (ACA) risk-sharing provisions beginning with first quarter 2014. (Ref #2013-28)
     - *SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions*: Revisions adopt Accounting Standards Update (ASU) 2013-10: Inclusion of the Fed Funds Swap Rate as a Benchmark Interest Rate, incorporate the GAAP definition of a benchmark interest rate, and delete the prior guidance requiring the same benchmark interest rate for similar hedges. (Ref #2013-32)
     - *SSAP No. 92—Accounting for Postretirement Benefits Other than Pensions and SSAP No. 102—Accounting for Pensions*: Revisions adopt by reference ASU 2011-09: Compensation–Retirement Benefits–Multiemployer Plans: Disclosures about an Employer’s Participation in a Multiemployer Plan with limited disclosures. (Ref #2013-37)
     - *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions add reference to the downstream holding company guidance in Appendix B – Determining the Valuation Method. (Ref #2013-31)
   - Adopted the following interpretations with respect to statutory accounting:
     - *Interpretation 2013-04: Accounting for the Risk-Sharing Provisions of the Affordable Care Act* (INT 13-04), as exposed Feb. 12, with modifications to paragraphs 12, 15, 56 and 58 as discussed during the meeting of the Emerging Accounting Issues (E) Working Group on March 29. This action includes the submission of a referral by the Emerging Accounting Issues (E) Working Group to the Statutory Accounting Principles (E) Working Group regarding the additional proposed changes pertaining to nonadmission and other changes developed in response to the direction from its March 19 conference call. This referral requests consideration of an issue paper and a SSAP to address accounting guidance for the ACA risk-sharing provisions as a priority item.
     - Adopted the following actuarial interpretations with respect to *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38):
       - None.

2. **Financial Condition Examiners Handbook Changes, Other Examination Tools and Related Items**
   - None.

3. **Financial Analysis Handbook Changes and Related Items**
   - None.
   - None.

5. **Annual Statement Instructions Changes and Related Items**
   - Adopted the following changes to the financial annual statement blanks and/or instructions:
     - 2013-20BWG – Modify the supplemental compensation exhibit and add instructions to facilitate the collection of additional detail on the nature of compensation paid to top executives and directors.
     - 2013-24BWG – Change the column description for the “Federal ID Number” column on Schedule Y, Part 1A and Part 2 to read only “ID Number.” Add instruction similar to the “ID Number Column” instruction included in the reinsurance exhibits Schedule F and Schedule S.
     - 2013-25BWG – Add questions related to the Actuarial Memorandum required by Section 8D of AG 38 and the Regulatory Asset Adequacy Issues Summary (RAAIS) required by Section 7A(5) of the *Actuarial Opinion and Memorandum Regulation* (#822) to the Supplemental Exhibits and Schedules Interrogatories. (Note: Only property, health and title were included due to the form numbers table being a uniform table in the instructions.)
     - 2013-26BWG – Move from Note 21, Other Items the disclosure for Offsetting and Netting of Assets and Liabilities to Note 5, Investments with an illustration to be data-captured.

6. **Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO) and Related Items**
   - Adopted the following technical amendments:
     - Deleted the instructions and related text fragments for short-dated non-principal protected instruments.
     - Amended the instructions for catastrophe bonds, which removes equity classification and permits them to be filing exempt.
     - Deleted the “expedited review” paragraph in the Regulatory Treatment Analysis Service (RTAS) instructions.
     - Added a new instruction to clarify the policy and analytical process applicable to hybrid securities.

7. **NAIC Risk-Based Capital Formula Changes and Related Items**
   - Adopted the ACA Fee Sensitivity Test Proposal for health RBC.
   - Adopted the ACA Fee Sensitivity Test for life RBC.
   - Adopted the Catastrophe Risk Charge for Insurance Subsidiaries Proposal.
   - Adopted the Federal Home Loan Bank Proposal.

   - UCAA: Adopted a proposal to define the meaning of “original.”
   - UCAA: Adopted a proposal to provide the old and new group code, if applicable, for a change of control corporate amendment application.
   - UCAA: Adopted a proposal to provide previous and new domiciliary state information for a re-domestication of a corporate amendment application.
   - Company Licensing: Adopted revisions to Category 3 to incorporate corporate structures and framework.

9. **NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual and Related Items**
   - None.